

City Manager **17**

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Assistant City Manager  
City of Milpitas  
455 East Calaveras Boulevard  
Milpitas, California 95035-5479

**Re: Revenue Strategies Project**

Dear Blair:

The City of Milpitas is seeking the assistance of MuniFinancial to develop and implement a range of revenue strategies. This updated letter proposes a scope of work, schedule, and budget to achieve this objective. It should replace the letter dated February 5, 2004. This letter incorporates the following changes:

- ♦ The project will commence in April rather than March.
- ♦ The project will be completed by the end of August rather than September.
- ♦ Phase I, from the February 5, 2004 letter, Comprehensive Revenue Review, has been eliminated from the scope of this project.
- ♦ Phases II and III have become Tasks I and II.
- ♦ A third task has been added to the scope of the project, Funding Strategy for Parking Facilities Construction and Maintenance.

**Situation**

Local governments have become increasingly sensitive to the net fiscal impact of development and infrastructure projects on their operating funds. This sensitivity accelerated since Proposition 218 required voter approval for many new or increased taxes, assessments, and fees. The State's continued encroachment on local general fund revenues is straining city budgets. Local governments have had to implement increasingly sophisticated strategies to increase and diversify their revenue sources.

Over the next several years the City of Milpitas is facing the following significant increases in landscape maintenance costs related to redevelopment and transportation infrastructure improvements:

- ♦ Implementation of the Midtown Specific Plan will result in substantial landscape improvements to approximately 3.7 miles of arterials along Main and Abel streets, plus the need for common parking facilities to facilitate higher densities for commercial development.
- ♦ Construction of the 880/237 interchange will result in the City assuming maintenance responsibility for approximately 40 acres of landscaping to be installed by Caltrans.
- ♦ The City also anticipates assuming some landscaping obligations associated with the Tasman East/Capital light rail extension.

The City has limited revenue sources to fund these additional obligations. Redevelopment tax increment is a primary source of funds for Midtown Specific Plan property disposition and public improvements. However, state law prohibits the City from using these funds for ongoing maintenance and operations.

As a result the City is in the same position as many other cities in California – facing increasing costs associated with growth, constrained general fund revenues, and a fiscal environment that requires public or property owner approval for most new or increased revenue sources.

## **Approach**

Below we discuss three potential approaches to funding the increasing costs associated with continued redevelopment of the City. The following three approaches are specific opportunities that we have discussed with City staff.

### ***Special District Funding Strategy for Landscape Maintenance***

One of most effective strategies pursued by many of our clients is to use special districts to fund landscape maintenance costs. Assessment districts are established with a property owner majority vote and require a special benefit nexus. Community Facilities Districts need a two-thirds vote but generate special taxes exempt from any nexus requirements. In either case, a city will often secure the vote as a condition of approval for a development project.

The City is in a unique opportunity to secure support for special district funding from a large area over the next 12 to 24 months. During that period the City anticipates substantial activity associated with redevelopment property transfers and development project approvals in the Midtown Specific Plan area.

### ***General Fund Cost Recovery of Redevelopment Project Fiscal Impacts***

A complementary approach to ensuring adequate funding for City services (not just landscape and lighting) is to require that redevelopment projects fully fund their fiscal impact on the City's General Fund. The Midtown Specific Plan includes substantial amounts of new multi-family housing, a land use category that in most cities generates negative fiscal impacts.

If redevelopment funding is available for infrastructure that a developer would otherwise have to pay for, then there is the opportunity for the City to relieve the developer of cost obligation. In return, the City could impose a one-time fiscal impact fee on the project with proceeds going to the General Fund.

### ***Development Fee and Special District Funding for Parking Facilities Construction and Maintenance***

A one-time impact or in-lieu development fee can be established to finance costs associated with the construction of the Midtown area parking facilities. The first facility, a multi-level parking structure, will serve the City Library, County Health Center, Senior Affordable Housing Center, and some limited private development.

To fund annual maintenance costs, a special parking assessment district can be formed. Assessment districts are established with a property owner majority vote and require a special benefit nexus. Development projects within the district can be given the option to buy into the facility on a per stall basis to satisfy parking requirements.

## Scope of Services

The following scope of services is designed to address each of the three approaches discussed above:

- ♦ Task I (Subtasks 1 and 2) addresses special district strategy for landscape maintenance;
- ♦ Task II (subtasks 3 and 4) addresses cost recovery of redevelopment fiscal impacts; and
- ♦ Task III (Subtasks 5 and 6) addresses funding strategy for parking facility construction and maintenance.

The City may choose to pursue each task independently or in conjunction with the other tasks.

### Task I: Special District Funding for Landscape Maintenance

#### **Subtask 1: Develop Special District Funding Strategy**

- Objective:** Determine the most effective approach to using special districts, created as a condition of new development, to fund landscape maintenance obligations.
- Description:** Gather landscape maintenance cost data for Midtown arterials, 880/237 interchange, and light rail extension. Estimate the amount and pace of development within the Midtown plan and elsewhere in the City. Evaluate special benefit relationship between new development and landscape maintenance to determine need for a special tax as an alternative. Estimate assessment and/or special tax rates and total revenue generated. Assess if burden of assessments or special taxes is unreasonable. Identify formation approach (expandable district, separate zones, etc.). Develop special district formation and funding plan.
- Meetings:** Two meetings, one to initiate the task and one to delivery the draft memorandum.
- City Support:** Provide land use and development data for Midtown Specific Plan and other growth areas in City; provide landscape maintenance cost estimates.
- Deliverables:** Special District Formation and Funding Plan (memorandum)
- #### **Subtask 2: Implement District Formation and Funding Plan**
- Objective:** To assist in the formation of special districts to fund landscape maintenance.
- Description:** Identify property owners; determine costs and assessment or special tax rates (see Task 2); prepare boundary map; prepare engineer's report for special districts to be formed. Assist in preparation of notices and resolutions. Prepare, send, and tabulate ballots.
- Meetings:** Two meetings with staff during the formation process and two public meetings.
- City Support:** Identification of properties to be included in district(s).
- Deliverables:** Engineer's/Special Tax report(s); ballots.

**Task II: Cost Recovery of Redevelopment Fiscal Impacts**

***Subtask 3: Evaluate Redevelopment Funding Opportunities***

**Objective:** To evaluate opportunities for redevelopment funding to offset private development costs in the Midtown Specific Plan area.

**Description:** Evaluate redevelopment assistance required to stimulate private investment based on available market studies and redevelopment plans, updated for current real estate market conditions as appropriate. Determine if opportunities exist to use redevelopment tax increment to offset infrastructure and/or affordable housing costs that otherwise would be funded directly by developers. Address any legal issues based on discussions with redevelopment counsel. Prepare a preliminary estimate of redevelopment assistance for specific projects.

**Meetings:** Two meeting with City staff and redevelopment counsel.

**City Support:** Provide market and redevelopment studies. Work with consultant to identify potential use of tax increment to offset development costs.

**Deliverables:** Redevelopment Funding Opportunities (memorandum)

***Subtask 4: Identify Redevelopment Fiscal Impacts on General Fund***

**Objective:** Determine fiscal impact of development within the Midtown Specific Plan on the General Fund.

**Description:** Construct a fiscal impact model based on current citywide budget data. Use a citywide per capita methodology for most costs and revenues, complemented with case studies for property tax, sales tax, and extraordinary service costs. Develop a long-term (e.g. 20-year) land use scenario for the Midtown Specific Plan. Use model to evaluate fiscal impacts of Midtown Specific Plan redevelopment on the General Fund. Estimate the level of a fiscal impact mitigation charge on redevelopment projects to offset negative impacts on the General Fund.

**Meetings:** Two meetings with staff to discuss the fiscal model assumptions, approach, and results.

**City Support:** Provide current budget data. Identify extraordinary service costs, if any, in Midtown Specific Plan area.

**Deliverables:** Midtown Specific Plan Fiscal Impacts (memorandum)

**Task III: Funding Strategy for Parking Facilities Construction and Maintenance**

***Subtask 5: Establish In-lieu Development Fee to Fund Parking Facilities Construction***

**Objective:** To establish an in-lieu development fee to fund construction of the first Midtown area parking facility.

**Description:** Gather construction costs for Midtown area parking facility to be funded by in-lieu fee; prepare boundary map for fee zone; prepare fee nexus report; assist in preparation of resolutions.

- Meetings:* Two meetings with City staff and one public hearing (to be coordinated with Subtask 6).
- City Support:* Provide parking facility construction costs.
- Deliverables:* Draft and final nexus report.
- Subtask 6: *Develop Special District Funding for Parking Facility Maintenance***
- Objective:* Determine the most effective special district statute to fund parking maintenance for local properties on an "opt-in" basis.
- Description:* Research parking facility maintenance costs to develop an annual operating and maintenance budget; identify property owners and corresponding assessments; prepare boundary map and engineer's report; assist in preparation of notices and resolutions; prepare, send and tabulate ballots.
- Meetings:* Two meetings with staff during the formation process and two public meetings (to be coordinated with Subtask 5).
- City Support:* Identification of properties to be included in district.
- Deliverables:* Engineer's report; ballots.

## Schedule

The chart below outlines a proposed schedule should the City choose to move forward with all three tasks. We can adjust the schedule based on the City's priorities.

### City of Milpitas Revenue Strategies Project Proposed Project Schedule

Task	2004				
	Apr	May	Jun	Jul	Aug
<i>Task I</i>					
1. Special District Strategy					
2. Implement Formation Plan			(See Note 1)		
<i>Task II</i>					
4. Redevelopment Funding Opportunities					
5. Redevelopment Fiscal Impacts					
<i>Task III</i>					
5. Impact Fee for Parking Construction					
6. Parking Maintenance District Formation					

Note 1: Schedule could vary depending on the number and types of districts to be formed.

## Firm Qualifications

MuniFinancial is one of the largest public-sector financial consulting firms in the United States with corporate headquarters in California and regional offices throughout the country. Since 1987 we have helped over 600 public agencies and nonprofit organizations successfully address a broad range of financial challenges. The firm has the largest special district formation and administration practice in the nation, and is a dominant firm in the field of revenue enhancement techniques for local government in California. The firm currently has a staff of 70 dedicated professionals with the range of expertise necessary to provide high-quality service in the following areas:

- ♦ **Financial planning and revenue enhancement**, including financial projections and policy analysis, plus rate, user fee, and cost allocation studies;
- ♦ **Special district implementation and administration**, including district formation and voter campaigns, plus administrative services such as levies and delinquency management, and debt compliance services such as municipal disclosure, and arbitrage rebate.
- ♦ **Capital improvement planning and financing**, including infrastructure financing plans and impact or connection fee studies;
- ♦ **Economic and fiscal policy analysis** of proposed projects and plans, including government reorganizations studies; and

MuniFinancial is one of The Willdan Group of Companies. Willdan is a leading engineering consulting firm consisting of over 330 personnel in the Western United States and provides contract staff for building, planning and engineering departments plus a range of civil engineering services. With the combined expertise of our firms we can provide a comprehensive approach to our clients financial, economic, and engineering challenges.

## Staffing

**Robert D. Spencer** would be the principal-in-charge and project manager for this engagement. Bob is a Principal Consultant in our Financial Consulting Services Group and is located in our Oakland office. He would be responsible for ensuring that all work is completed within budget and on schedule, and ensuring all deliverables meet or exceed the City's expectations.

Mr. Spencer is an economist with 15 years of financial consulting experience to local agencies throughout California. He has extensive knowledge of local government finances through his work developing financial plans, conducting fiscal impact analyses, and providing management audits. Just within the last year Mr. Spencer has been in charge of projects to:

- ♦ Prepare a fiscal analysis of new development to justify formation of an expandable special district for public safety services for the cities of Clovis, Elk Grove, and Stockton;
- ♦ Provide a 10-year financial plan to the City of Roseville including a working model for evaluation of policy scenarios; and

- ♦ Prepare a policy analysis with recommendations for restructuring the City of Fresno's Urban Growth Management system, an antiquated program of development impact fees and facility financing mechanisms.

Mr. Spencer also has extensive knowledge of the Bay Area economy having completed engagements for the cities of Dublin, Fremont, Gilroy, Hayward, Hercules, Livermore, Oakland, San Francisco, San Jose, and South San Francisco.

Mr. Spencer would be assisted by the following Financial Consulting Services Group staff who have specific expertise for this project:

- ♦ **Lyn Gruber:** Lyn is a principal consultant with over nine years of experience and our expert in special district formations, including Mello-Roos community facilities districts, maintenance assessment districts, landscape and lighting districts, benefit assessment districts, and business improvement districts. Her prior projects include public safety and facility maintenance special tax (Mello Roos) districts for the cities of Chula Vista, Clovis, Elk Grove, and Perris, and landscape and lighting districts for the cities of Colton, Fairfield, and Roseville.
- ♦ **Jeff Wakefield:** Jeff is a senior project manager with 14 years of experience providing cost of service studies and cost allocation plans for clients such as Belmont, Encinitas, La Habra, La Quinta, Livermore, Menlo Park, Moreno Valley, San Francisco, and San Jose.
- ♦ **Annie Voy:** Annie is an analyst with experience forming special districts. She will assist on this study by gathering data, conducting analyses, and preparing initial drafts of reports.

## Budget

The table below provides an estimated budget for this project. All costs for Tasks I and III are reimbursable from special district or development fee funds. Redevelopment Project Area No. 1 may fund costs for Task II. As mentioned above, the City could proceed with any phase with or without the other phases.

The budget range is shown for Subtask 2 because the scope of services for that task will depend on the results of Subtask 1 (the number and type of special districts to be formed). We will provide a final not-to-exceed budget upon completion of Subtask 1.

A budget range is also shown for Subtask 3 because we do not have enough information at this time to determine the level of effort that will be required to identify redevelopment funding opportunities. We can provide a final not-to-exceed budget upon further discussions with Redevelopment Agency staff.

### Estimated Budget for City of Milpitas Revenue Strategies Project

Task	Low	High
Task I. Special District Funding for Landscape Maintenance		
Subtask 1. Special District Strategy	6,500	6,500
Subtask 2. Implement Formation Plan	<u>20,000</u>	<u>55,000</u>
Subtotal Task I	\$ 26,500	\$ 61,500
Task II. Cost Recovery of Redevelopment Fiscal Impacts		
Subtask 3. Redevelopment Funding Opportunities	6,500	25,000
Subtask 4. Redevelopment Fiscal Impacts	<u>16,000</u>	<u>16,000</u>
Subtotal Task II	\$ 22,500	\$ 41,000
Task III. Funding Strategy for Parking Facilities		
Subtask 5. In-lieu Fee for Parking Construction	4,000	4,000
Subtask 4. Parking Maintenance District Formation	<u>10,000</u>	<u>10,000</u>
Subtotal Task III	\$ 14,000	\$ 14,000
Total	\$ 63,000	\$ 116,500

Source: MuniFinancial.

Let us know if you have any questions or comments regarding this proposal, and if you wish to proceed with any or all components. We appreciate this opportunity to assist the City of Milpitas in its efforts to develop more diversified and productive revenue sources to fund its public service obligations.

Sincerely,

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Robert D. Spencer  
Principal Consultant